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PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **October 1986**

STATE ECONOMY ON SLIGHT UPSWING IN AUGUST

The Pennsylvania economy moved ahead during August as improvements were recorded for nearly all economic indicators. However, **there do not appear to be any signals suggesting that the economy is about to break out of its moderate growth pattern.** Likewise, there is also a lack of signals suggesting that there is a pending slump in economic activity.

So much, though, depends on national trends. If the nation were to slip into a recession, and that is certainly not impossible, than it is pretty safe to say that Pennsylvania will have more than its fair share of problems. In an effort to bolster the U.S. economy, many are calling for stimulative policies abroad. In that these policies would result in an increase in the demand for goods and services on the part of foreigners, it is hoped that the flow of imports into the U.S. would slow as foreign producers attempt to meet their own domestic demand. Furthermore, a portion of the rise in income abroad would probably go towards the purchase of U.S. goods and services. Hence, if these policies are adopted, we would probably see an improvement in the foreign trade situation.

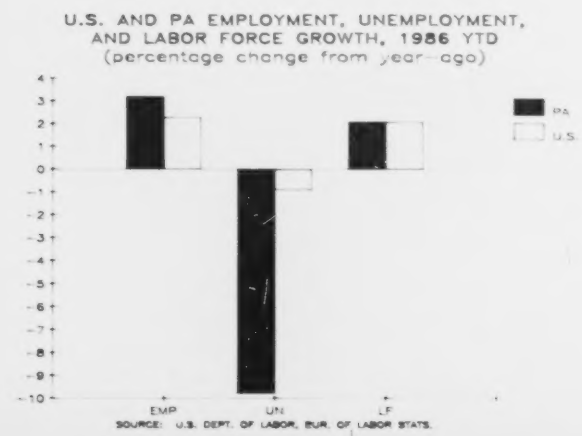
As for the specifics during the month of August, **the economy in the Commonwealth was again led by the nonmanufacturing sector.** Job levels in these industries are at a seasonally adjusted record-high of 3.78 million. Through the first eight months of this year, sectoral job levels are up about 125,000 from a year ago. **Much of the increase is the result of gains in the service-producing industries.** Job levels are up (on an annual basis) by 6,200 in wholesale trade, 38,900 in retail trade, 10,600 in finance, and 60,800 in services.

The strength in nonmanufacturing is a natural result of the continuing structural shift in the economy away from the goods-producing industries, towards service-producing activities. **As both Pennsylvania and the U.S. exploit comparative advantages in this area, we will continue realizing the bulk of job gains in the service-producing industries.**

As pointed out in last month's *Survey*, **the construction industry is also making a strong contribution to nonmanufacturing's overall health**. Construction contract awards during August totaled $744 million on a seasonally adjusted basis, up 11.2 percent from July. Gains were recorded in all three categories: residential building, nonresidential building, and nonbuilding. Lower mortgage rates continue fueling the residential sector. However, while analysts feel that activity will remain brisk, many do not expect much *additional* growth from this sector.

Although we are not seeing any growth from the manufacturing sector, we continue receiving signals that these industries are coming close to bottoming out. All told, there were 1.04 million jobs in manufacturing in August after seasonal adjustment, down 7,000 from July. This decline is somewhat overstated as the result of a major strike in the steel industry. Even if these workers are added in, manufacturing job levels are still essentially at an all-time low. The work stoppage also distorts the 21.9 percent fall in average daily steel production and the 8.2 percent decline in industrial electric power sales, a good barometer of industrial production.

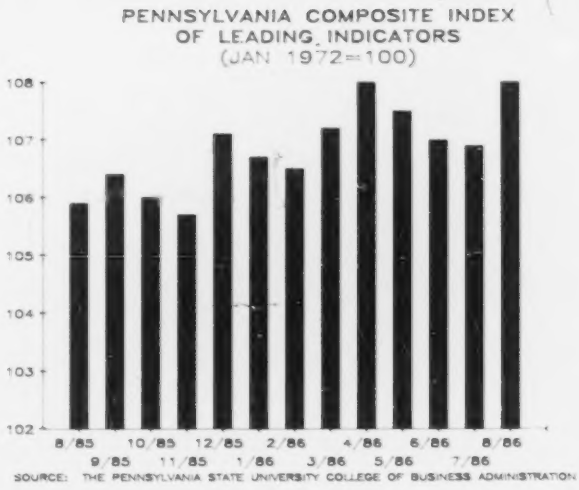
Other indicators suggest a slight improvement in manufacturing's standing. Specifically, gains were realized in the



average factory workweek, total hours worked, and total payrolls in Pennsylvania during August.

Inflation jitters, especially in the long-term bond markets, appear to be unfounded based on recent measures of price levels. The GNP price deflator rose at only a 1.8 percent annual rate during the second quarter. Furthermore, the consumer price index for August shows a very mild 1.6 percent gain from a year ago. Through the first eight months of the year, consumer prices are up 2.2 percent compared to a year ago. **It is doubtful that inflation will emerge as a problem while the economy is growing at a lackluster pace.** These moderating price trends are also very evident in the three areas in Pennsylvania for which data are available.

The overall favorable developments in the Commonwealth resulted in some welcome increases in both the coincident and leading economic indexes. The coincident index, which moves positively with current economic trends, advanced by 0.4 percent, the first gain since March. Contributing to the increase was a strong gain in resident employment to a seasonally adjusted 5.27 million from 5.21 million in July. **After a fairly sluggish second quarter, total employment seems to be firming up** as of late. Also making a contribution to the gain in the index was a slight increase in real earnings in the manufacturing sector. The job loss in manufacturing held back the increase somewhat.



Economic Activity in Pennsylvania	UNADJUSTED DATA 1986 July	UNADJUSTED DATA 1986 August	UNADJUSTED DATA 1985 August	SEASONALLY ADJUSTED DATA 1986 July	SEASONALLY ADJUSTED DATA 1986 August	SEASONALLY ADJUSTED DATA 1985 August	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1986 July	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1986 August	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1985 August
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,826*	4,840	4,758	4,798*	4,823	4,744	105.1	105.6	103.9
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,764*	3,788	3,668	3,752*	3,784	3,664	116.4*	117.4	113.7
Manufacturing									
No. of wage and salary jobs (thous.)	1,045*	1,045	1,087	1,046*	1,039	1,081	77.9*	77.4	80.5
Ave. wkly. hrs. worked by prod. workers	40.0*	40.4	39.8	40.0*	40.6	40.0	101.3*	102.6	101.2
Total wkly. person-hours worked (mils.)	28.2*	28.5	29.3	28.3*	28.5	29.3	73.7*	74.4	76.3
Total wkly. payroll (mil. dols.)	274.0*	276.9	280.0	274.8*	278.0	280.8	122.3*	123.7	125.0
Steel production (thous. tons)	761	581	954	n.a.	n.a.	n.a.	38.4	30.0	49.4
Industrial electric power sales (mil. kwh)	3,568	3,341	3,534	3,597	3,302	3,510	97.4	89.4	95.0
Mining									
Anthracite coal (thous. net tons)	294	325	302	287	280	270	58.8	57.2	55.2
Bituminous coal (thous. net tons)	4,092	n.a.	4,105†	4,647	n.a.	4,701†	65.9	n.a.	66.7†
Construction contracts awarded (mil. dols.)									
Total	797.1	794.2	666.3*	669.0	744.0	627.1*	207.9	231.3	194.9*
Residential building	368.3	404.7	305.6*	292.2	333.4	239.5*	207.6	236.9	170.2*
Nonresidential building	247.6	198.3	282.3*	185.7	199.7	292.5*	171.1	184.0	269.6*
Nonbuilding (utilities and public works)	181.2	191.3	78.4*	191.1	210.9	95.1*	263.7	291.0	131.2*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,366	5,390	5,221	5,208	5,267	5,096	108.4	109.6	106.0
Unemployed									
No. of persons (thous.)	387	364	410	376	380	427	93.7	94.7	106.4
Rate (percentage of labor force)	6.7	6.3	7.3						
Rate, seasonally adjusted				6.6	6.6	7.7			
Civilian labor force, no. of persons (thous.)	5,753	5,754	5,631	5,584	5,647	5,522	107.2	108.5	106.1
Initial claims for unemployment benefits	120,699	82,335	94,431	112,905	104,420	117,027	78.9	72.9	81.7

Consumer Prices, all items	Urban Indexes (1967 = 100) 1986 July	1986 August	1985 August	Percentage Change Month Ago	Year Ago
U.S. city average	328.0	328.6	323.5	+0.2	+1.6
Philadelphia	323.0	323.1	315.8	+0.0	+2.3
Pittsburgh	n.a.	330.1	325.9	n.a.	+1.3
Northeast PA	309.0	n.a.	306.6†	n.a.	+0.8

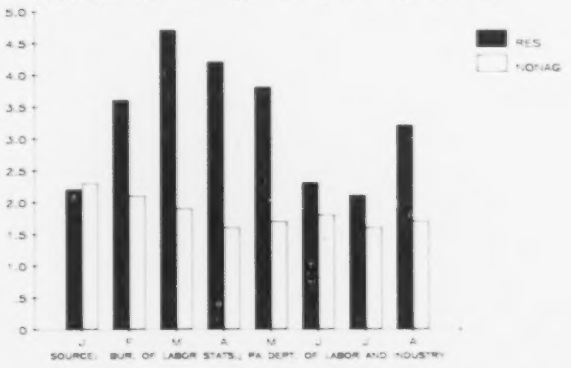
NOTES: Data on employment, payrolls and hours have been revised to first quarter 1985 benchmarks.
[1] Total includes workers on strike. * = figure revised † = figure for July 1985 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

The leading index rose a strong 1.3 percent in August following three months of decline. All three components of the index, the average workweek, residential building contract values, and initial claims for unemployment insurance, contributed to the advance. All three provide some indication of future economic trends.

Despite the fairly sizeable gain in employment, joblessness in the State held steady as the new jobs absorbed an increase in the labor force. The number of residents counted as unemployed rose by 4,000 to a seasonally adjusted 380,000. The jobless rate held steady at 6.6 percent after seasonal adjustment.

Much is made of Pennsylvania's economic performance relative to that of the nation. As measured by trends in employment, unemployment, and the labor force, **Pennsylvania is more than holding its own with the nation so far this year compared to the first eight months of 1985** (see chart). Specifically, the increase in employment and decline in unemployment is considerably stronger than in the nation, while the rise in the labor force is identical to that in the U.S. On the other hand, **the State's performance over the last several years appears to fall short of the nation's.** Compared to the 1980-1985 average, growth so far this year in employment and the labor force in Pennsylvania trails the nation's. The substantial decline in the number of unemployed in Pennsylvania is somewhat misleading since it is partially the result of the weak labor force growth.

PA RESIDENT EMPLOYMENT AND NONAGRICULTURAL JOB GROWTH, JAN 1986–AUG 1986
(percentage change from year-ago month)

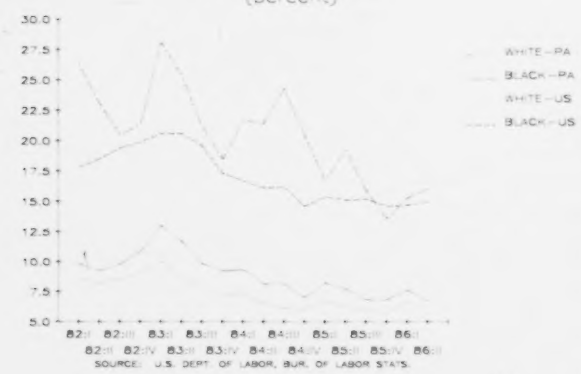


There is a great deal of debate concerning how to best measure the growth in employment in Pennsylvania. Some contend that the resident employment series provides the best reflection of overall trends. Others, however, contend that the nonagricultural jobs series presents a more realistic picture. Clearly, when overall trends in employment are desired, one would certainly want to include agricultural workers, the self-employed, and domestic workers, all of which are included in the resident employment figures. On the other hand, from a statistical viewpoint, the nonagricultural data are more reliable due to the large sample size. (About 3,000 households in Pennsylvania are involved in the *Current Population Survey* which derives the resident figures. Nearly 15,000 establishments are surveyed in deriving the nonagricultural data.) Caution should obviously be exercised in discussing *the* rate of job growth.

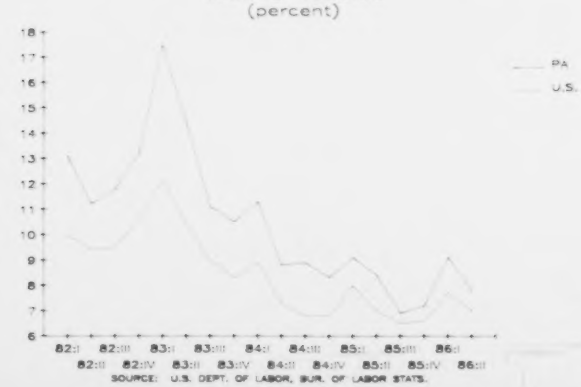
One need only look at the recent behavior of these two employment measures to see this. As the accompanying chart shows, the growth in resident employment in Pennsylvania has been considerably stronger than the growth in nonagricultural jobs each month this year except January. Additionally, the Commonwealth's standing relative to the U.S. differs depending on which employment measure is used. So far this year, resident employment growth, at 3.2 percent compared to a year ago, compares quite favorably with the nation's 2.3 percent growth rate. The nonagricultural data suggests that job growth in Pennsylvania, at 1.8 percent, falls short of the nation's 2.7 percent advance.

As shown in the accompanying charts, some interesting

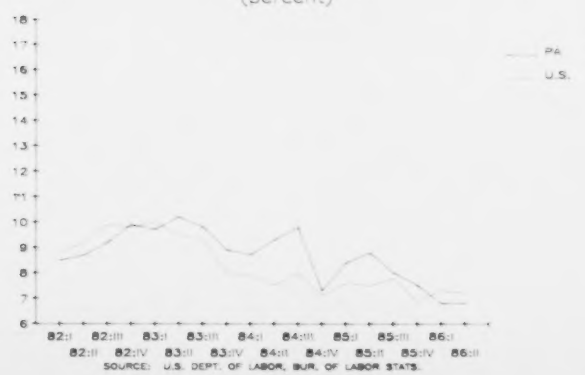
U.S. AND PA UNEMPLOYMENT RATES BY RACE, 1982:IQ–1986:IIQ
(percent)



U.S. AND PA MALE UNEMPLOYMENT RATES, 1982:IQ–1986:IIQ
(percent)



U.S. AND PA FEMALE UNEMPLOYMENT RATES, 1982:IQ–1986:IIQ
(percent)



trends emerge when the unemployment situation is examined according to race and sex. **In both Pennsylvania and the U.S., the unemployment rate among black residents is more than double the jobless rate for whites, and has remained so for the entire period examined (1982: IQ-1986: IIQ).** Furthermore, the rates for both blacks and whites in Pennsylvania have remained consistently above the national averages for nearly the entire period, although the differences are narrowing. **The male unemployment rate, for the most part, has remained above that for females** during the same period in Pennsylvania. Furthermore, the male unemployment rate in the State has remained above the nation's over the entire period. On the female side, the jobless rate in the Commonwealth was less than the nation's for several quarters at the beginning and end of the period, but was higher than the national average in the intervening months.

— William D. Anderson

The Center for Regional Business Analysis in Penn State's College of Business Administration is exploring the possibility of sponsoring a conference in early 1987 concerning the economic outlook for Pennsylvania. It is hoped that such a gathering will bring together representatives from government, industry, the academic community, and other interested individuals to share their views on the future of the Commonwealth economy at the University Park campus.

We are currently attempting to gauge the interest in such a gathering. If you are interested and/or if you have suggestions concerning the organization of the conference, please contact the Center at: The Pennsylvania State University, College of Business Administration, Center for Regional Business Analysis, 108 BAB II, University Park, PA 16802; or call (814) 865-7669.

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